

*Mario Monti*

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Thank you very much for this generous introduction. I'd like to congratulate President Decleva and President Puglisi for promoting this important and timely initiative and Rector Profumo for bringing it into life. I should perhaps say "for engineering it", in such an admirable way, and I thank him for inviting me.

It's a honour for me, as well as a pleasure, to participate in this high-level event in Turin, the city in where I've been teaching for almost a decade back in the Seventies. I've been asked to submit a few reflections on Economics. I'm fully aware that, after the explosion of the financial crisis and the subsequent implosion of the global economy, Economics features in a slightly embarrassing position, alongside the three other Es on this session's programme: Energy, Ecology, Ethics. Those are "good" Es, Economics is considered anyway, at any time, even when things go well, to be the dismal science and today regarded as evil (that's another E).

I should say at the outset that my remarks will inevitably be permeated by two biases: a *University* bias and a *European* bias. My views have in fact been shaped, over time, by my lifelong being into the academic community, but also by my commitment in the governance of the European Union to which Professor Profumo made reference.

And I believe that University on one hand and the European Union on the other have at least one thing in common, which is crucial for our discussions. They both tend to take the longer term view. This is particularly important in a world where most problems are caused by the predominance of *short termism*. For Universities, this attitude is clear: they shape new generations, they develop thinking, and it's sufficient to see the draft declaration of this Summit to see how much the notion of long term sustainability is core.

For the European Union, maybe, it's less clear (especially to the non-Europeans) why the European Union has a special relationship with a longer term view. Well, after all, it has been for an implicit division of roles between the individual member States and the European Union as such, since the beginning (more than 50 fifty years ago) that certain objectives, certain fundamental values like avoiding war, living together in an orderly way, safeguarding the long term interest of the European citizens, have been put very much in the hands and in the responsibility of the European Union level.

Now, what I would like to try to do for the benefit of the subsequent discussion, as I am asked to reflect on the "evil E" of Economics, is to basically reflect on two things. We all know that modern economies function, or do not function so well, on the basis of two fundamental elements: the market and the governments. I believe that the current crisis provides us with the wonderful opportunity to reconsider deeply both elements, the market and the governments, and to do so in a way that inevitably has to be much more integrated across policy areas. This is in line with the very good choice of Professor Profumo, of having the four Es, and it's really a stimulus for all of us to think in terms of cross-area policy concerns.

The market. Well, if the world economy is in crisis, the market economy is even more in crisis. It is seen as unfair, having generated unacceptable inequalities, and it is seen as inefficient, having attracted massive resources into financial activities whose contribution to the economy is questioned. Yet, the world needs an integrated market economy, which is a necessary, though not sufficient, condition for growth and welfare. But I believe that the sustainability issue now goes really at the core of the market economy itself.

So far, we could say that the market economy is an instrument to generate acceptable outcomes in the long term. We must have sustainability (including the environmental aspects, first and foremost), but it was not really contested that the market economy was the pillar of the system.

After the crisis, one must ask the question whether the market economy itself is sustainable, not just the outcomes of societies based on the market economy. The key test for market economies, and perhaps even for democracies, will be whether they master the growing inequalities, including *within* Countries, brought about by ungoverned globalization.

And here I would submit to you some very subjective reflections on the main economic and social model that we have around in our Nations, which is opening up in unforeseen ways. Let us see, for example, how the crisis is bringing new reflections in the two groups of models : to simplify, in the Anglo-Saxon model, that we see in the US, in the UK and Ireland, and, on the other hand, on the more “social market economy” models that we see in France, in Germany, in many other countries of continental Europe.

Now, the crisis is leading Countries embracing the Anglo-Saxon model to reconsider some of its features. Perhaps they relied too much on market mechanisms and too little on regulation, they over extended the financial industry while neglecting manufacturing and did not care enough about inequalities and welfare systems. The Anglo-Saxon Countries now look with greater respect, as does China, at Countries in Europe such as Germany and France that have long followed social market economy models. In my view, the Anglo-Saxon Countries should neither feel embarrassed by their partial conversion, nor should the social market Countries be too emboldened by this vindication. During the previous decade, it was the social market economy Countries who had to move in the Anglo-Saxon direction, introducing economic reforms, to gain competitiveness. And, in my view, they should continue to do so.

But this convergence to the middle may provide the international community with an unexpected political opportunity, with the opportunity to meet increasing social challenges while safeguarding integration.

Take the EU. Each of these two groups of Countries has a major concern. The Anglo-Saxons and the new member States of Central and Eastern Europe are rightly angry with the social market Countries, France in particular but also Germany and others, because these are increasingly intolerant of the existing rules of the single market, of competition, of State aid control. On the other hand, the social market economies also complain, also rightly in my view, that a long standing opposition by the Anglo-Saxon Countries and by the new Central European member States to any form of tax coordination makes it hard for them to meet social objectives through their budgets.

Tax receipts, curtailed by tax competition, often do not allow the funding of social programs. In addition, those tax bases which are mobile, across Countries - such as capital, large corporations, skilled professionals - tend to move to Countries with favorable tax regimes, thus driving a race to the bottom as regards tax rates. Labour, and low skilled labour in particular, being less mobile, carries an increasing burden. We now have, for these mutual complaints, a state of frustration in

both groups of Countries, resulting in resentment against Europe, generally, and against the single market specifically.

But there is an opportunity for a constructive compromise. I think the European institutions should put in front of the public opinion the fact that Europe is at risk of disintegrating, after a successful 50 years process of integration, because there is increasing economic nationalism in Europe. The European institutions should propose a strategic pact comprising two elements: the first is a renewed binding commitment to the single market, including strengthened enforcement mechanisms. The second is limited measures of tax coordination, aiming certainly not at full tax harmonization, neither feasible nor necessary, but at enabling member states to retain tax sovereignty by acting together on parts of it. If they prefer to defend individually the principle of their own tax sovereignty, they will see the continuing de facto evaporation of their pretended national sovereignty through unrestrained tax competition.

There would be advantages for both groups. The Anglo-Saxons and the new member states would make an opening on tax coordination but also would secure the future of single market on which they are so keen, rather than seeing it dismantled. The social market Countries would feel the heat and the discipline of an effective single market, but at last they would gain more margins to pursue social objectives without having to tear apart the rules of the market.

The EU should promote work on tax coordination also into the G8 and the G20. On April 2 in London the G20 has decided a fight against a small number of specific and so-called "tax heavens". That is good but that only addresses tax evasion, not legal tax avoidance, which goes on massively as most states engage in unlimited tax competition with each other. So, each country of the G20 is a tax heaven of sorts for citizens of the others. The result of a protracted lack of tax coordination, when all the rest is gradually coordinating including financial regulation, means that the effort to reconstruct at a global level the key instruments of governance of the market economy which are there at the national level, would take place for all instruments but not for the most classical and core instrument, the power to raise taxes. Isn't there an element of paradox there?

So, I am very concerned for the future sustainability of the market economy, unless it is shaped up in an integrated way so as to be able to address effectively the issue of inequalities. On governance, I think we have seen a huge progress in the last twelve months. Only one year ago, the most powerful country, the US, was reluctant to the notion of multilateral governance in most policy areas. Now, "thanks" to the crisis, there has been an incredibly fast and very much widespread awareness that, just as markets are integrated globally, we need to integrate to some extent the instruments of public policy governance of markets.

We are seeing from America and Asia, an increasing interest for the European method of handling integration. If you think of it, we are having this crisis for lack of multilateral governance of globalization. There is one place in the world where massive globalization, although only on a continental scale, has been put in place for 50 or 60 years, that is Europe.

That globalization has been governed and it has not been broken down. What have been the key ingredients of this way of governing globalization at the European scale?

Three very simple elements, they were all already in the mind of Jean Monnet who founded the European integration process:

- 1) dismantling of barriers to integrate markets, but also

2) putting together public powers in certain policy areas (this has been done for two policy areas since the 50s, since the inception of the EU, that is external trade and competition and more recently for money); and

3) having in the system some elements to tackle inequalities (regional funds, structural funds, a common agricultural policy which may be criticized but has helped a lot initially to keep the agricultural world on board).

Now, at the global level, of these three elements, we have only the first one, the dismantling of barriers and integration of markets; but so far not the putting together of public policies and the invention of some sort of redistribution mechanism.

That's why the efforts, following the crisis, of the G8 under the Italian presidency, and in a revamped way in the G20, are so important. This framework of thinking also allows to understand the crucial importance of this G8 Summit of Universities. It is important to integrate the concerns about Economy, Ecology, Energy and Ethics.

I will conclude with a question. In one respect, the crisis is being beneficial. The beneficial effect of this crisis is being to finally persuade governments that they have an interest, not just an ethical imperative, but an interest, in accepting more coordination and some de facto reduction in their national sovereignty. Should we expect this good and new recent disposition of governments, triggered by the crisis, to develop a momentum of its own to a more systematic coordination, even when the crisis is over? Or should we expect it to be reversible, so that once the most acute manifestations of the crisis hopefully disappear, we fall back into more nationalistic reflexes which might unwind the progress that I hope will be achieved through the G8 and the G20?. Thank you very much for your attention.